

IDAHO OUTLOOK

NEWS OF IDAHO'S ECONOMY AND BUDGET

STATE OF IDAHO

DIVISION OF FINANCIAL MANAGEMENT

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As we sit down for Thanksgiving dinner, we have yet another item to add to the long list of things for which we are grateful. Namely, it appears the nation's job drought may finally be over. According to the U.S. Department of Labor, the country's seasonally adjusted civilian unemployment rate dropped marginally from 6.1% in September 2003 to 6.0% in October. This decline may seem tiny, but it is another step in the right direction. The Department of Labor also reported a net gain of 126,000 nonfarm jobs in October. This is a welcome turnaround from the long string of monthly job losses going all the way back to early 2001.

Admittedly, it may seem premature to declare the "jobless" recovery over based on the October evidence alone. However, other data also point to more jobs. Data revisions show a rosier job picture. For example, it was previously believed nonfarm employment declined 93,000 in August 2003. A month later the August 2003 job loss was halved. The most current release now show there was a slight job increase 35,000 in August. This same report also shows nonfarm employment increased about 125,000 in both September and October.

Through most of the recovery employers have been hesitant

to expand their payrolls. Instead, they have turned to other means to meet growing demand. Traditionally, one of the easiest ways to do this has been to expand work hours. Indeed, the number of hours worked for businesses has increased 1.3% from the second quarter to the third quarter of 2003. However, the increase in work hours alone do not account for the huge 7.2% jump in real GDP in the third quarter. The most important ingredient in this output jump was the surge in productivity. Over the last two years it has been faster than any other two-year period for the last five decades. Productivity rose a remarkable 7.0% in the second quarter this year and was followed by a stellar 8.1% annual growth in the third quarter. The productivity explosion helps explain the paradox between the expanding economy and shrinking employment.

This begs the question whether productivity will continue growing this fast. Some may see the increased productivity as structural. That is, something fundamental to the economy has changed that has made it possible for output to grow faster with fewer workers. The huge investment in computers, as well as the adoption of new management techniques would support this position. While there is no doubt technology growth and management changes may have

helped productivity grow faster, it is hard to believe structural changes alone account for the recent surge.

There is another component to the rise in productivity. This is the cyclical component. Productivity usually rises quickly when employers begin exhausting alternatives to hiring more workers. As such, it is a pretty reliable harbinger of hiring. The recent productivity surge results from a combination of structural and cyclical factors whose relative contributions are hard to measure. Regardless, we know part of the increase was cyclical and the productivity surge suggest hiring was ripe to resume.

This is one Thanksgiving most economists will remember because they got one right. Earlier this year, they believed companies would begin hiring in the second half of this year, and the data show they were correct. So this Thanksgiving we know economists will be grateful for at least a couple of things, the growing number of jobs and the foresight to correctly time this turnaround.

*Happy Thanksgiving from
the Idaho Division of
Financial Management!*

DIRK KEMPTHORNE, Governor

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General Fund Update

As of October 31, 2003

Revenue Source	\$ Millions		
	FY04 Executive Estimate ³	DFM Predicted to Date	Actual Accrued to Date
Individual Income tax	882.8	258.4	272.9
Corporate Income tax	96.7	27.5	28.3
Sales Tax	865.6	304.5	309.4
Product Taxes ¹	45.6	16.0	15.6
Miscellaneous	150.9	51.0	51.0
TOTAL GENERAL FUND²	2,041.6	657.4	677.2

¹ Product Taxes include beer, wine, liquor, tobacco and cigarette taxes
² May not total due to rounding
³ Revised Estimate as of August 2003, adjusted for 2003 legislative actions

General Fund revenue was \$3.4 million higher than expected in October. This brings the fiscal year-to-date excess to \$19.8 million. Once again the sole source of material strength in October is the individual income tax. The corporate income tax was slightly ahead of expectations for the month, while the sales tax experienced its first under performance of this fiscal year.

Individual income tax revenue was \$4.0 million higher than expected in October. On the collection side, filing payments were \$2.0 million higher than predicted and withholding collections were \$1.7 million higher than predicted. On the payout side, refunds were \$0.3 million lower than expected and

miscellaneous diversions were exactly on target. Year-to-date individual income tax revenue is now \$14.5 million higher than expected. Filing collections are \$4.7 million above target, withholding is \$6.8 million higher than expected, refunds are \$1.6 million lower than expected, and miscellaneous diversions are \$1.4 million lower than expected.

Corporate income tax revenue was \$0.3 million higher than expected in October. Filing payments were \$0.9 million below expectations, while quarterly estimated payments were \$0.1 million lower than predicted. Refund payments were \$1.2 million lower than expected for the month, while miscellaneous diversions were \$0.1 million lower

than expected. Corporate income tax collections are now \$0.8 million higher than expected for the fiscal year-to-date.

Sales tax revenue was \$0.9 million lower than expected in October. This revenue category is now \$4.9 million ahead of the year-to-date expectations. October's under performance is the first such weakness for the sales tax this fiscal year, but it follows on the heels of September's abrupt deceleration.

Both product taxes and miscellaneous revenues were on target for the month of October.